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FISCAL IMPACT STATEMENT

LS 7710
BILL NUMBER: HB 1524

NOTE PREPARED: Jan 20, 2007
BILL AMENDED:

SUBJECT: Grow Our Local Economy Districts.

FIRST AUTHOR: Rep. Murphy
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that a county fiscal body may adopt a resolution designating certain townships as Grow Our Local Economy Districts (District). It provides that a township may be designated as a District only if the net residential assessed value in the township is at least 65% of the total net assessed value in the township. It also requires a county fiscal body to make certain findings before adopting the resolution designating a District. The bill provides that after adopting a resolution designating a District, the county fiscal body must submit the resolution to the Indiana Economic Development Corporation (IEDC) for approval. It specifies that if the designation of a District is approved by the IEDC, the Treasurer of State shall establish an incremental tax financing fund for the District. It also provides that incremental Sales and Use Taxes collected by businesses that begin operating in the District after the District is approved and Incremental Income Taxes from wages of employees of businesses that begin operating in the District after the District is approved shall be paid to the incremental tax financing fund and distributed to the county containing the District. The bill specifies that not more than $5,000,000 of total incremental tax revenue may be distributed to a county for a particular District. It authorizes a county to use the incremental tax revenue from a district to: (1) finance, construct, improve, equip, operate, or maintain an economic development project or a local public improvement in the District; (2) acquire or lease any land or facilities for an economic development project or a local public improvement in the District; (3) pay debt service on bonds or other obligations; or (4) establish and maintain a debt service reserve. It requires a county fiscal body to designate the duration of a District. It also provides that a District must terminate not later than 30 years after incremental tax revenue is first distributed to the county.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Indiana Economic Development Corporation (IEDC):* The bill requires the IEDC to: (1) review resolutions by county fiscal bodies to designate grow our local economy districts; and (2) approve or disapprove the designations. The bill specifies the findings that must be made by the IEDC to approve a district designation. The bill provides that a district is considered to have been approved by the IEDC if it fails to make a decision on the district designation within 120 days of the county resolution being submitted to the IEDC. Once approved by the IEDC incremental Income Tax and Sales Tax revenue from employees and businesses in the district are to be distributed to the county for use in the district. The number of townships statewide that could potentially meet the criteria for designation as a district and the number of counties that might pursue such a designation is unknown.

The funds and resources required for the IEDC to review and approve district designations could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The January 1, 2007, state position vacancy report indicates that the IEDC has 35 vacant full-time positions.

Department of State Revenue (DOR): The bill requires the DOR to annually (in October) calculate the incremental income and sales tax revenues collected in each district during the preceding state fiscal year. The incremental income tax includes state individual Adjusted Gross Income Tax, and local option income taxes (CAGIT, COIT, and CEDIT).

State Treasurer: The bill requires the State Treasurer to establish an incremental tax financing fund for each district that is approved by the IEDC. Each year, incremental Income and Sales Tax revenue generated in a district must be deposited in its respective incremental tax financing fund. Each month, money in a district's incremental tax financing fund is distributed to the fiscal officer of the county containing the district. The bill requires the county fiscal officer to create a development fund for the district and deposit the incremental Income and Sales Tax money in the development fund. The bill limits allocations of Income Tax (including CAGIT, COIT, and CEDIT) and Sales Tax collections to a district's incremental tax financing fund to $5.0 M over the life of the district.

Explanation of State Revenues: *Capture of Incremental Tax Revenue:* The bill allows a county operating a grow our local economy district to capture incremental revenue from: (1) the individual AGI Tax paid by employees working in the district; and (2) Sales and Use Tax remitted by businesses operating in the district. These allocations plus allocations of incremental local option income taxes (CAGIT, COIT, and CEDIT) may not exceed $5.0 M over the life of the particular district. The bill prohibits capture of incremental AGI Tax and Sales and Use Tax unless it is approved by the IEDC. The bill does not limit the number of districts which can be created statewide and the number of townships statewide that could potentially qualify for designation as a district is unknown. These allocations would reduce revenue to the General Fund and the Property Tax Replacement Fund by an indeterminable amount potentially beginning in FY 2008 or FY 2009.

Explanation of Local Expenditures: *District Designation:* The bill allows a county fiscal body to adopt a resolution to designate a township as a grow our local economy district if the district will attract new business to the township or result in the retention or expansion of existing businesses in the township; benefit the township and township residents; protect and increase state and local tax bases; and result in a substantial increase in employment opportunities and private investment. A township is eligible for designation as a district if the net residential assessed value in the township is at least 65% of the total net assessed value in the township. (Note: The bill specifically provides that the district designation is not eliminated if the net residential assessed value drops below 65% of the total net assessed value in the township.)

The bill requires the county fiscal body to hold a public hearing on the resolution and publish notice of the hearing, and publish notice of the resolution if it is adopted. The resolution designating the district must specify the duration of the district, which may not exceed 30 years after incremental income tax revenue or sales tax revenue is first distributed to the county containing the district. The county fiscal body must submit the resolution to the IEDC for its approval or disapproval. If the IEDC fails to either approve or disapprove the district designation within 120 days of the resolution being submitted to the IEDC, the designation of the district is considered as approved by the IEDC. Once approved by the IEDC incremental Income Tax and Sales Tax revenue from employees and businesses in the district are to be distributed to the county for use in the district.

Upon approval of the district by the IEDC, the county fiscal body must submit to the Department of State Revenue (DOR) a certified copy of the resolution, a list list of the employers in the district with current federal tax identification numbers, and street and address information in the district. The DOR is then required to utilize this information to annually determine the incremental Income Tax and Sales Tax revenue generated in the district.

The bill requires the county fiscal officer in a county containing a district to establish a development fund for the district. All incremental Income Tax and Sales Tax revenue generated in the district must be deposited in the development fund. The bill allows money in the development fund to finance, construct, improve, equip, operate, or maintain economic development projects or local public improvements (as defined in the bill) in the district. The bill also allows money in the fund to be use to acquire or lease any land or facilities necessary for such projects, or to pay debt service on bonds or other obligations issued for such projects. The bill prohibits bonds, other obligations, or leases relating to projects from having a term of more than 20 years.

Explanation of Local Revenues: *Capture of Incremental Tax Revenue:* Local option income taxes (CAGIT, COIT, and CEDIT) paid by employees working in a grow our local economy district would be diverted to the development fund for the district, and would not be available for other uses. The amounts that could potentially be diverted for purposes of these districts is indeterminable. The bill limits the amount of state Income and Sales Tax and Local Option Income Tax that may be captured by a district to $5.0 M over the life of the particular district.

State Agencies Affected: Indiana Economic Development Corporation; Department of State Revenue; Treasurer of State.

Local Agencies Affected: Counties.

Information Sources:

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